

# Innovation Management

## The State of Open Innovation

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[www.innovationmanagement.se](http://www.innovationmanagement.se)

Open Innovation has been an increasingly hot topic since 2003, and the publication of Henry Chesbrough's book, *Open Innovation*. Now, we are 8 years later. A top-of-mind question for innovation executives is, "What does my company have to show for our innovation investment?" This article delineates where Open Innovation has been valuable and where it has yet to deliver returns. Chief Innovation Officers will find 6 specific action steps, which will significantly ramp up gains from their open innovation initiatives.

### **Lots of enthusiasm yet results are disappointing**

Open Innovation has improved time to market, new product features, cost, technology scouting, and line additions. These are all vital metrics for R&D effectiveness. This enthusiasm, and rightly so, comes from delivering nice gains in the efficiency of new product development.

Yet, 60-80% of executives are disappointed with the results from growth initiatives and investments (recent Boston Consulting Group survey). At the end of the day, there is one result that executives truly care about from their innovation investments, and that is new growth. They are mystified as to why their investments in innovation haven't yielded more share of existing customer's spend, more new customers, and more new markets. Those executives based investments on the seemingly sound assertions that best practices and processes would get them there, that new expertise was needed, and that growth ideas should come from outside the company.

### **Looking at innovation investments ... What are executives seeing?**

What is an executive's worldview? Executives see product innovations that renew the brand or product line, and keep it competitive and customer relevant. They see products offering margin improvements. They see the erosion of revenue streams from older technologies being replaced with newer technology, often at lower market price. They see products localized for different geographies. Competitive differentiation, once a strong growth driver, is now yielding shorter and shorter term revenue bumps, just until the competition catches up. Variety continues to increase in markets that are already crowded. Customers are confused. Revenue is just keeping pace with the industry category trend line. If you are fortunate, you are surfing a big trend, yet concerned that you don't have follow-ons in the pipeline. Executives see the inevitability of BRIC countries evolving from suppliers to fierce competitors.

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## What do executives want yet are not seeing?

When executives speak of the critical importance of innovation, they are really saying that they want products and broader offerings, which take the brand or business into new places and generate new revenue streams. When competitors or other industry segments do it, it surely gets their attention. Executives want to see innovation as a strategic driver of growth, yet they don't see \$100mm brands or business poised to become \$1 billion. They want to hear "Wow!" excitement when they talk with existing customers. They wonder, where are the new customers? Where were non-customers "getting their jobs done" by other means? They don't see locally developed products becoming global revenue sources. They know the huge potential of the middle and bottom of the pyramid in emerging markets, and don't see growth opportunities matching the scale of that potential. This leaves executives with acquisitions and geographic expansion as their primary growth engines. That is a zero-sum game!

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## What specific steps can a Chief Innovation Officer take?

### 1. Create deep insights into unmet executive needs

Strategy is not just based in objective analysis. A successful growth strategy is one that fulfills on the aspirations and ambitions of executives for the future of the business. It is imperative that executives openly express that "fire in their belly." Without insights into these unmet executive needs you won't have the direction and energy to create a winning innovation roadmap for new growth. CIOs should introduce those strategic conversations that create a climate for such open communication. A certain degree of provocation and controversy is essential.

Big Mistake #1: Being thankful for the level of support that you have and acting cautiously to avoid controversy.

### 2. Get the targets and signals of success right

Can you answer the following three questions: (1) Four years out, what are the clear measures of success that undeniably prove the value of innovation to the executive suite? (2) What would indisputably signal to executives that we are on a success trajectory before revenue momentum is noticeable? 6 months from now? 1 year? 2 years? (3) Do executives have a plan to finance innovation investment conditional only on delivering agreed milestones? CIOs need to catalyze these conversations with fellow executives.

Big Mistake #2: Filling in the ambiguity with answers from you and your staff. Now the targets become yours, not those of your executives. You will spend a lot of energy pushing them across to the businesses and inevitably you will disappoint.

### 3. Get the scale of innovation right

What is needed is an innovation architecture scaled to house those growth targets, signals, and necessary investments. Work backwards through the Growth Creation Flow. For the next few years, how many fully-funded investments will we have in the portfolio? How many might we kill or exit late stage? How many validated opportunities do we want in a backlog, waiting in the wings for investment. Then back further upstream into business concepts and even further into ideas. What will be our

investment decision screens so that we have enough quality throughout the growth creation flow?

Big Mistake #3: Building innovation architecture that doesn't match the scale of your needs.

#### **4. Expand from customer insight to market foresight**

Here are proven sources of big growth, and they are not what most people think. (1) Seek out big trends and create defensible places to play; (2) Use proprietary technology to hunt for big market-facing problems and ideas; (3) Bring your company's market scale to alliances with VC financed companies; (4) Take new technology out of the labs and put it in the hands of internal entrepreneurs. All four of these points are key sources of bigness. Then, make the "big" practical by creating business concepts for real, present-day customers.

Big Mistake #4: Customer insights won't provide you with a sustainable advantage; everyone has them in their innovation toolkit.

#### **5. Back "the Innovators"**

Another proven source of big growth is the people who have already done it - the true innovators. Big growth ideas ultimately rely on the thinking of innovative people. Building a big growth business is ultimately reliant upon the know-how and commitment of innovative people. You get big growth with the right people, enabled by good tools, done in a conducive business infrastructure. The people who will start and build your new growth are a different breed from the people who excel at running existing businesses.

Big Mistake #4: Staffing new growth with people who excel at incremental innovation.

#### **6. Actively seek out and openly surface risks**

Executives are justifiably skeptical of new growth. In spite of best practices, resources, and good ideas, the track record is quite poor. It is no surprise that the typical innovation initiative has a life-expectancy of 2 years. Executives know there are unaddressed risks lurking. Yet, companies continue to relearn the same lesson over and over; there are always people who know about failure points before failure happens; yet, no one systematically makes the effort to listen. CIOs should actively seek out points of dispute and controversy in the background. Once the hidden and controversial risks are surfaced, then you can validate the risk, mitigate them or kill the investment.

Big Mistake #6: Managing the risks associated with new growth as though they are the familiar territory of renewal.

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### **In Conclusion**

Think about the following scenario: It is two years into your future; you have been executing everything that you set out to do; your COO now tells you that your company is going to make an acquisition. Furthermore, part of the cost synergies will come from scaling back your innovation group. Now you will wish that you had addressed some of the above points differently. Keep in mind: the biggest strategic risk is confusing good, solid renewal innovation with what it takes to deliver new growth.

## About the Author

Doug Berger is Managing Director of INNOVATE ([www.innovate1st.com](http://www.innovate1st.com)) experts in *Breakaway Growth and Business Innovation*. The heart of Innovate's work is putting our clients on higher growth trajectories well above historic trend lines. Clients include: The Walt Disney Company, Johnson & Johnson, DuPont, Weyerhaeuser, Alcatel-Lucent, Merck, Medrad, Inco, Alberto-Culver. Innovate's work spans the world from the U.S., to Canada, China, Brazil, Argentina and Australia.



Our *Old Game – New Game Growth Methodology* is a proven system, closing critical gaps in clients' growth missions, including shifting people's mindset, creating compelling growth opportunities, embedding new thinking into strategy, execution, leadership. Innovate is known for directly impacting the sticky challenges and pain points at the root of disappointing performance, and making entrepreneurial execution work.

Doug speaks, publishes the electronic magazine, *The Innovators*, and based on teaching thousands of people the art and skills of breakthrough thinking, authored *The One Hour Breakthrough: Translating Aspiration into Action*.